

Full Response from Angela Mah, Media Relations, Air Canada
February 4th, 2018

Classification: **GENERAL BUSINESS/AFFAIRES GÉNÉRALES**

Hi Erica, here is detailed information regarding your questions. Firstly, there is a difference between overbooking vs overselling.

Overbooking is a situation where there are more passengers than available seats due to having a smaller aircraft than originally scheduled operate a flight because the original aircraft is no longer available. The vast majority of the relatively few cases where customers are denied boarding because there are not enough seats are in fact due to overbooking situations. This is an unavoidable reality for all airlines.

This occurs on our major competitor as well. Please see:

<https://www.cbc.ca/news/business/nova-scotia-cycling-team-westjet-bumped-flight-1.4162822>

A different situation is overselling, where more tickets than seats are sold for a specific flight. The purpose of this is to ensure aircraft fly full, which benefits customers by keeping fares lower and allowing us to operate marginal routes, thereby giving customers more travel options. The CTA has recognized the consumer benefits of overselling and has ruled it is an acceptable practice on at least two occasions.

The airline industry jargon for passengers who do not show up for a flight is a “no-show” (which is not to blame the customer). We use extensive historical data and complex algorithms to project the “no-show” factor for select flights, where there are opportunities to reduce lost revenue by conservatively over-selling without denied boarding resulting. Overselling is very carefully managed and in fact, accounts for less than 1% of passengers booked, with only a fraction of those cases resulting in denied boarding. We flew approximately 51 million customers in 2017/18 and the CTA received 106 denied boarding complaints about Air Canada, or 0.0002 per cent of customers.

Regarding other airlines, the Air Canada and WestJet business models have fundamental differences, so comparisons are incorrect. Air Canada is the only full service network carrier in Canada. We operate almost 3.5 times as much capacity as WestJet, and Air Canada’s route network is vastly more complex, with twice as many destinations served, including approximately 40 international destinations at Air Canada versus 4 for WestJet. WestJet does not have as much connecting traffic, particularly for

international traffic where no-show rates are higher. (During a Dec. 4, 2018 Investor Day presentation, WestJet President Ed Sims said Swoop is deliberately avoiding connectivity to reduce complexity.)

More than 80% of Air Canada's flights in 2018 had no-shows, with some routes having an average no-show rate of close to 14%. No-shows are costly because that seat is unable to be re-sold, and is subsequently flown empty. Customers who "no-show" are often provided another seat at no cost. Overselling mitigates this cost rather than passing these costs onto all customers.

Our airport employees receive training to address a range of operational scenarios they may encounter, including handling denied boarding situations. Our employees are coached to manage such situations with empathy and helpful assistance. We pay compensation to affected passengers, we confirm them for the next available flight, and we also rebook customers on other airlines and pay for hotel accommodations and meals in many situations when an overnight is involved. We encourage and foster open communication with employees as we provide factual information about our business, and we regularly use their feedback to constructively improve and refine our customer processes and procedures.

There are a number of misconceptions and inaccuracies in what your sources have told you, and are specifically addressed here (Air Canada responses in blue):

- Air Canada oversells flights on a daily basis, to numerous destinations
- Overselling is a recognized industry practice by network carriers and has been approved twice by the CTA. The rate of overselling varies considerably with routing, aircraft type and time of day, week or year and Air Canada takes a conservative approach on overselling.
- It is particularly distressing to employees (and customers) when flights are oversold to key destinations during peak seasons
- We do not oversell during peak periods.
- Agents are trained to "dupe" customers who have "GTE" printed on their boarding pass (telling them they will get their seat assigned at the gate, when there is no guarantee that will happen)

- The GTE designator allows us to issue boarding passes so customers can get through security to the gate, this gives us additional time to finalize the flight load and assign seats.
- Agents are told by trainers not to tell customers that they don't have a guaranteed seat and that "there's no reason to worry"
- In the vast, vast majority of cases, we correctly estimate how many people will not show-up so denied boardings do not occur in most oversell cases.
- They feel forced to "lie" to customers, and say it takes a toll on agents' health
- Our agents are trained to explain the process to customers and be transparent.
- Until recently, passengers with "GTE" on their boarding pass were also given a special yellow "STANDBY" overlay tag - agents were trained to tell all passengers that they will get on their flights, and the only reason the tag is going on is because a seat number hasn't be assigned yet and will be done at the gate.
- Again, GTE on the boarding pass indicates that a seat will be assigned at the gate once the passenger load is finalized.
- These yellow "STANDBY" tags were done away with recently, because too many people were figuring out they didn't have seats
- The yellow tags have been replaced by new streamlined processes.
- The yellow tags have been replaced by new technology that requires bags be scanned, but some smaller flights (to Victoria, Nanaimo, etc.) don't have scanners, making it difficult to pull a bag off a plane if a passenger is bumped due to overbooking
- We continually revise our processes and as with any large organization, when new technology is introduced it is sometimes done in phases. I would also note that on routes with smaller aircraft, the *rate or percentage* of any overselling is much lower and in many cases zero.

- This leads to flights leaving with a passenger's bag, but not the actual bag owner - a safety violation
- In those rare instances where customers are denied boarding by the airline, different protocols in accordance with Transport Canada requirements are followed, so this not correct.
- Planes on major routes are "often" downgauged because seats are only partially sold and most people could be put on a smaller plane - resulting in people being bumped, so the airline can save on fuel and crew costs.
- This is incorrect and we do not do this. Our schedule is complex and entails an aircraft moving from A to B to C to D and so on throughout the day. All our aircraft are very full (86% full on average in the last quarter), are already fully deployed in our schedule, and therefore one cannot substitute a smaller aircraft without disrupting the schedule throughout the rest of the system.
- They feel the practice of overselling is a tactic that forces passengers to pay for seat selection ahead of time - when that should be included in the price of a flight
- Customers like the options available in our branded fares as they allow those customers to buy only the fare attributes they want. This is about consumer choice. It is one reason we carried a record number of 51 million customers last year.

Sincerely,
Angela

On Tue, Feb 5, 2019 at 11:45 AM

Classification: **GENERAL BUSINESS/AFFAIRES GÉNÉRALES**

Hello Enza – please see our responses below:

Q. You mention that "overbooking" is a situation where there are more passengers than available seats due to switching to a smaller aircraft than originally scheduled. Would you please clarify the reasons for switching to a smaller aircraft? What are the possible reasons for the larger, scheduled aircraft not being available?

A. Aircraft switches where the size of the aircraft operating the flight has changed for operational reasons often occur when there is an event in another part of our network which precludes an aircraft from flying its originally scheduled flights and therefore impact subsequent flights it was scheduled to fly. **Of course, having the exact same size or larger aircraft to substitute happens many times with little visible impact. Having a diverse fleet also means we can maintain affected flights – albeit sometimes with a smaller aircraft - so the vast majority of customers can travel as scheduled, rather than having to cancel flights and inconveniencing all customers.**

Operational reasons such as third party requests (e.g. air traffic control or airport authority) to decrease the number of flights arriving or departing for safety reasons, constraints at third parties such as fueling and catering companies for a range of reasons, or airport facility constraints such as gridlock, extreme/difficult weather impact with all operations moving much more slowly or unplanned aircraft technical issues, all can prevent an aircraft from leaving. Events such as these occurring in another part of our network will often require substitutions for the subsequent flights an aircraft is scheduled to fly so that the vast majority of passengers can still be transported rather than cancelling a flight outright. **This is an unavoidable reality for all airlines.**

Q. In addition, would you please indicate why Air Canada customer Daniel Tsai's flight was overbooked - you said the aircraft was switched from a 300-seat aircraft to a 251-seat aircraft due to "an operational issue". What was the issue?

A. We have no additional information to what was previously provided to you.

Q. In terms of numbers, we were doing the math, and you mentioned "overselling" accounts for less than 1% of passengers booked, with only a fraction of those cases resulting in denied boarding. Since you flew 51 million customers in 2017/2018, would you confirm that means fewer than 510,000 tickets were oversold that year? If so, what fraction (how many) of the 510,000 oversold tickets resulted in denied boarding?

A. Only a fraction of one percent results in denied boarding in this scenario, and the CTA data we provided are indicative 0.0002%. Remember, the number of oversells is only half the equation. You must weigh this against the number of no-shows, which is much higher for Air Canada, because it is an international network carrier, the only one

in Canada. As we said, customers do not show up as much as 14 per cent of the time for some flights.

When we consider overselling a flight, we first study the historical average number of no shows for that flight, including taking in factors into account such as aircraft type, time of day, week, year, local market peculiarities, including even special events in the community (ie. are the Junos in a town on a particular weekend)

After this exercise, if we decide to go ahead, we then make sure the number of seats oversold is far lower than the average no-show rate. This gives us a wide margin of error in those cases where more customers than normal actually show up for the flight. **This is why for the vast majority of times, overselling does not result in denied boarding, as the estimates are accurate.**

Q, And does that number exclude the number of seats made unavailable due to “overbooking”?

A. Overbooking is unrelated to overselling.

On Tue, Feb 5, 2019 at 5:16 PM

Classification: **GENERAL BUSINESS/AFFAIRES GÉNÉRALES**

Hello Enza - Denied boarding may occur from either overbooking (smaller gauge aircraft now operating for any number of operational reasons – many out of our control - cited earlier) or overselling (selling more tickets than available seats), and when compensation is due, we pay customers for being denied boarded, hence it is called “denied boarding compensation”.

Our only other comment is to reiterate that overselling is not new. It is approved by the CTA and is a common practice amongst many international network airlines to ensure the maximum number of seats are filled on a departing flight. The additional information that you are requesting is commercially sensitive, but we can say that overselling represents less than 1% of passengers booked, and a very small fraction of that 1% would have been denied boarded (and subsequently receive compensation).

Sincerely,
Angela

On Wed, Feb 6, 2019 at 9:12 AM

Classification: **GENERAL BUSINESS/AFFAIRES GÉNÉRALES**

Hello Enza, I went back to check once more whether there is any more information. Sales data is commercially sensitive. However, I can tell you that several million customers per year no-show and, as we said, we track these carefully and have highly reliable models that let us accurately predict patterns. Based on this data, any oversales are then limited to a small fraction of expected no-shows.

Angela